Lekwa Local Municipality
Annual Financial Statements
for the year ended 30 June 2011

Auditor General Mpumalanga
Issued 31 August 2011

General Information

Legal form of entity	Local municipality
Mayoral committee	
Executive Mayor	CM Morajane
	JF Buthelezi
Councillors	JR de Ville
	LBR Dlamini
	SS Gumede
	JL Janse van Rensburg
	HM Khota
	SA Maboea
	MY Mahlangu
	MG Makhanye
	VJ Mashinini
	JP Masuku
	MM Mnisi
	ML Molaba
	SS Mosia
	JB Mothopeng
	P Mphuthi
	GS Msibi
	AS Ngwenya
	NL Nkosi
	MS Radebe
	F Sarang
	PT Schnetler
	ENK Shabangu
	NZE Sitshoni
	N Tshabalala
	MR Tshabalala
	JJ van der Wath
	SM Zacarias
	BS Zwane
Grading of local authority	Low capacity municipality
Chief Finance Officer (CFO)	L Joubert (acting)
Accounting Officer	L Cindi (acting)
Business address	Cnr Dr Beyers Naude and Mbonani Mayisela Streets Standerton 2430
Postal address	PO Box 66 Standerton 2430
Bankers	First National Bank Limited
Auditors	Auditor General Mpumalanga

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Abbreviations

ASB	Accounting Standards Board
AG	The office of the Auditor General
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
CCMA	Commission for Conciliation, Mediation and Arbitration
PAYE	Pay As You Earn
SARS	South Africa Revenue Services
VAT	Value Added Tax
FMG	Financial Management Grant
MSIG	Municipal System Improvement Grant
INEP	National Electricity Program Grant
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (previously CMIP)
UIF	Unemployment Insurance Act
EPWP	Extended Public Works Programme

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WCA	Workmans Compensation Act

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 52, which have been prepared on the going concern basis, were approved by the on 31 August 2011 and were signed on its behalf by:

L Cindi (acting)

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2011.

1. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

2. Subsequent events

The following issues were settled after year end but before the approval of the financial statements :

- The R2,400,000 lawsuit regarding Deloitte Consulting was paid by Lekwa Local Municipality.

- The R11,050.80 lawsuit regarding KL Khuzwayo was paid by Lekwa Local Municipality.

3. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

4. Bankers

The municipality banks primarily with First National Bank Limited.

5. Auditors

The Auditor General Mpumalanga will continue in office for the next financial period.

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Inventories	6	1,540,414	2,024,939
Other financial assets	5	7,534,036	12,110,805
Trade and other receivables from exchange transactions	7	398,586	731,856
VAT receivable	8	-	6,747,911
Consumer debtors	9	41,161,923	32,906,919
Cash and cash equivalents	10	1,427,225	3,570,893
		52,062,184	**58,093,323**
Non-Current Assets			
Property, plant and equipment	4	44,359,514	38,374,404
Total Assets		**96,421,698**	**96,467,727**
Liabilities			
Current Liabilities			
Other financial liabilities	11	1,516,912	247,811
Finance lease obligation	12	199,307	173,068
Trade and other payables from exchange transactions	15	44,093,436	41,852,282
VAT payable	16	19,015,892	-
Consumer deposits	17	2,542,033	3,271,942
Unspent conditional grants and receipts	13	29,754,066	17,082,181
Provisions	14	11,550,863	8,035,923
		108,672,509	**70,663,207**
Non-Current Liabilities			
Other financial liabilities	11	2,039,406	3,600,938
Finance lease obligation	12	236,682	435,990
		2,276,088	**4,036,928**
Total Liabilities		**110,948,597**	**74,700,135**
Net Assets		**(14,526,899)**	**21,767,592**
Net Assets			
Accumulated deficit		(14,524,621)	21,767,671

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue	18	308,863,687	308,134,363
Other income	22	3,361,528	3,362,808
Operating expenses		(351,512,439)	(269,856,591)
Operating (deficit) surplus		**(39,287,224)**	**41,640,580**
Investment revenue	28	766,912	465,683
Finance costs	30	(1,141,003)	(754,595)
(Deficit) surplus for the year		**(39,661,315)**	**41,351,668**

Statement of Changes in Net Assets

Figures in Rand	Accumulated deficit	Total net assets
Balance at 01 July 2009	**(19,583,997)**	**(19,583,997)**
Changes in net assets		
Surplus for the year	41,351,668	41,351,668
Total changes	41,351,668	41,351,668
Balance at 01 July 2010	**25,136,694**	**25,136,694**
Changes in net assets		
Deficit for the year	(39,661,315)	(39,661,315)
Total changes	(39,661,315)	(39,661,315)
Balance at 30 June 2011	**(14,524,621)**	**(14,524,621)**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		231,585,013	230,986,293
Grants		81,407,114	100,717,917
Interest income		766,912	465,683
		313,759,039	332,169,893
Payments			
Employee costs		(94,551,055)	(79,481,537)
Suppliers		(218,336,811)	(199,095,478)
Finance costs		(1,141,003)	(936,833)
		(314,028,869)	(279,513,849)
Net cash flows from operating activities	34	**(269,830)**	**52,656,044**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(5,985,110)	(23,932,547)
Proceeds from sale of financial assets		4,576,769	(11,252,003)
Net cash flows from investing activities		**(1,408,341)**	**(35,184,550)**
Cash flows from financing activities			
Repayment of other financial liabilities		(292,431)	(2,471,138)
Finance lease payments		(173,069)	(152,060)
Net cash flows from financing activities		**(465,500)**	**(2,623,198)**
Net increase/(decrease) in cash and cash equivalents		**(2,143,671)**	**14,848,296**
Cash and cash equivalents at the beginning of the year		3,570,893	(11,277,402)
Cash and cash equivalents at the end of the year	10	**1,427,222**	**3,570,894**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 2, changes in accouting policy.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate depends on the economic benefits and service potential. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Effective Interest rate

The municipality used the prime interest rate to discount future cash flows

Allowance for doubtful debts

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

The fair value of investment properties has not been reviewed as the municipality have applied the transitional provisions as set out in Directive 4. The municipality is in the process of determing the fair value of all its investment properties. The service provider will be appointed to assist with the process.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Transitional provision

The municipality changed its accounting policy for investment property in 2011. The change in accounting policy is made in accordance with the transitional provisions as per Directive 4 as issued by the Accounting Standards Board.

According to the transitional provisions, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. The transitional provisions expire on 30 June 2012.

In accordance with the transitional provisions as per Directive 4 as issued by the Accounting Standards Board, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the standard, whichever is later.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of financial statements (GRAP 1),
- The effects of changes in foreign exchange transactions (GRAP 4),
- Leases (GRAP 13),
- Segment reporting (GRAP 18),
- Non-current assets held for sale and discontinued operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in

Accounting Policies

1.2 Investment property (continued)
accordance with the requirements of the Standard of GRAP on Investment property.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2011. The change in accounting policy is

Accounting Policies

1.3 Property, plant and equipment (continued)
made in accordance with the transitional provisions as per Directive 4 as issued by the Accounting Standards Board.

According to the transitional privisions, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment have accordingly been recognised at provisional amounts, as disclosed in note 4. The transitional provisions expire on 30 June 2012.

In accordance with the transitional provisions as per Directive 4 as issued by the Accounting Standards Board, where property, plant and equipment were acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the standard, whichever is later. Property, plant and equipment have accordingly been recognised at provisional amounts, as disclosed in note 4.

Until such time as the measurement period expires and property, plant and equipment are recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of financial statements (GRAP 1),
- The effects of changes in foreign exchange transactions (GRAP 4),
- Leases (GRAP 13),
- Segment reporting (GRAP 18),
- Non-current assets held for sale and discontinued operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- changes in the laibility are added to, or deducted from, the cost of the related asset in the current period,
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

1.5 Intangible assets

An asset is identified as an intangible asset when it:

- Is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

When an intangible asset is acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

1.5 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset and
- the expenditure attributable to the asset during its development can be measured reliably.

Transitional provision

The municipality changed its accounting policy for intangible assets in 2011. The change in accounting policy is made in accordance with the transitional provisions as per Directive 4 as issued by the Accounting Standards Board.

According to the transitional provisions, the municipality is not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible assets.The transitional provisions expire on 30 June 2012.

In accordance with the transitional provision as per Directive 4 as issued by the Accounting Standards Board, where intangible assets were acquired through a transfer of functions, the municipality is not required to measure that intangible assets for a period of three years from the effective date of the transfer of functions or the effective date of the standard, whichever is later.

Until the measurement period expires and intangible assets are recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of financial statements (GRAP 1),
- The effects of changes in foreign exchange transactions (GRAP 4),
- Leases (GRAP 13),
- Segment reporting (GRAP 18),
- Non-current assets held for sale and discontinued operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Intangible assets implies that any associated presentation and disclosure requirements need not be complied with for intangible assets not measured in accordance with the requirements of the Standard of GRAP on Intangible assets.

1.6 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at trade date.

Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Trade and other payables and borrowings are classified as financial liabilities at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially recorded at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents are classified as loans and receivables.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Accounting Policies

1.6 Financial instruments (continued)

Bank overdraft and borrowings are classified as financial laibilities measured at amortised cost.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either:
  has transferred substantially all the risks and rewards of the asset, or
  has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Accounting Policies

1.7 Leases (continued)

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relavant lease.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality will incur to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Accounting Policies

1.8 Inventories (continued)

Transitional provision

The municipality changed its accounting policy for inventories in 2010. The change in accounting policy is made in accordance with the transitional provisions as per Directive 4 as issued by the Accounting Standards Board.

According to the transitional provisions, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories have accordingly been recognised at provisional amounts, as disclosed in note 6. The transitional provisions expire on 30 June 2012.

In accordance with the transitional provisions as per Directive 4 as issued by the Accounting Standards Board, where inventories were acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the standard, whichever is later.

Until the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of financial statements (GRAP 1),
- The effects of changes in foreign exchange transactions (GRAP 4),
- Leases (GRAP 13),
- Segment reporting (GRAP 18),
- Non-current assets held for sale and discontinued operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Inventories implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on Inventories.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.10 Impairment of non-cash-generating assets

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a non-cash-generating asset is the present value of the non-cash-generating asset's remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

Restoration cost approach

Restoration cost is the cost of restoring the service potential of a cash-generating asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, are those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  the activity/operating unit or part of a activity/operating unit concerned;
  the principal locations affected;
  the location, function, and approximate number of employees who will be compensated for services being terminated;
  the expenditures that will be undertaken; and
  when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

Accounting Policies

1.12 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2010. The change in accounting policy is made in accordance with the transitional provisions as per Directive 4 as issued by the Accounting Standards Board.

In accordance with the transitional provisions as per Directive 4 as issued by the Accounting Standards Board, where provisions, contingent liabilities and contingent assets were acquired through a transfer of functions, the municipality is not required to measure those provisions, contingent liabilities and contingent assets for a period of three years from the effective date of the transfer of functions or the effective date of the standard, whichever is later. Provisions, contingent liabilities and contingent assets have accordingly been recognised at provisional amounts, as disclosed in note 14.

Until the measurement period expires and provisions, contingent liabilities and contingent assets are recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of financial statements (GRAP 1),
- The effects of changes in foreign exchange transactions (GRAP 4),
- Leases (GRAP 13),
- Segment reporting (GRAP 18),
- Non-current assets held for sale and discontinued operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Accounting Policies

1.13 Revenue from exchange transactions (continued)

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are determined by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;

1.14 Revenue from non-exchange transactions (continued)

- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Accounting Policies

1.16 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is:

- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a reuirement of the Municipal Systems Act, and which has not beencondened in terms of that Act;
- expenditure incurred by a municipality in contrvention of, or that is not in accordamce with, a requirement of the supply chain management policy of the municipality's bylaws giving effect to such policy, and which has not condoned in terms of such policy or bylaw's, but excludes expenditure by a municipality which falls within the definition of " unauthorised expenditure".

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Accounting Policies

1.21 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- Grap 17 - Property, plant and equipment

Notes to the Annual Financial Statements

3. New standards and interpretations

3.1 Standards and Interpretations early adopted

The municipality has chosen not to early adopt any standards and interpretations.

3.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which the municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of the municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by the municipality within a particular region.

This Standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is to be determined by the Minister of Finance

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when the municipality receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

Notes to the Annual Financial Statements

3. New standards and Interpretations (continued)

The municipality shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where the municipality prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'statement of comparison of budget and actual amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expexts to adopt the standard for the first time in the 2013 annual financial statements.

GRAP 103: Heritage Assets

GRAP 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard requires judgment in applying the initial recognition criteria to the specific circumstances surrounding the municipality and the assets.

GRAP 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, the municipality has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the municipality from determining the fair value.

GRAP 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)
value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

GRAP 103 states that a heritage asset should not be depreciated but the municipality should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The municipality should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the municipality applies the applicable Standard of GRAP to that asset up to the date of change. The municipality treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:
- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue

The municipality assesses the probability of each transaction on an individual basis when it occurs. the municipality shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense.

The municipality has adopted the interpretation for the first time in the 2011 annual financial statements.

GRAP 21: Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Non-cash-generating assets are primarily held for service delivery purposes.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality exepcts to adopt the standard for the first time in the 2013 annual financial statements.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, a municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, a municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and a municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, a municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a

Notes to the Annual Financial Statements

3. New standards and Interpretations (continued)

pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when a municipality consumes the economic benefits or service potential arising from a service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 30 June 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one entity and a financial liability or residual interest in another entity. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle a municipality to a portion of another entity's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, a municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where a municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from non-exchange revenue transactions (taxes and transfers), and using the Framework for the preparation and presentation of financial statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. A municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this standard, the municipality can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. A municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, a municipality can however designate such an instrument to be measured at fair value.

Notes to the Annual Financial Statements

3. New standards and Interpretations (continued)

A municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once a municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

The municiplaity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, a municipality has transferred control of the asset to another entity.

A municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where a municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

A municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for a municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that a municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. A municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is to be determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

4. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Furniture and fixtures	531,142	-	531,142	165,392	-	165,392
IT equipment	189,167	-	189,167	189,167	-	189,167
Infrastructure	34,406,300	-	34,406,300	28,830,608	-	28,830,608
Community assets	561,325	-	561,325	561,325	-	561,325
Wastewater network	8,413,525	-	8,413,525	8,413,525	-	8,413,525
Water network	258,055	-	258,055	214,387	-	214,387
Total	**44,359,514**	**-**	**44,359,514**	**38,374,404**	**-**	**38,374,404**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Total
Furniture and fixtures	165,392	365,750	531,142
IT equipment	189,167	-	189,167
Infrastructure	28,830,608	5,575,692	34,406,300
Community assets	561,325	-	561,325
Wastewater network	8,413,525	-	8,413,525
Water network	214,387	43,668	258,055
	38,374,404	**5,985,110**	**44,359,514**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Total
Furniture and fixtures	134,993	30,399	165,392
IT equipment	175,000	14,167	189,167
Infrastructure	9,779,537	19,051,071	28,830,608
Community assets	230,620	330,705	561,325
Wastewater network	4,121,707	4,291,818	8,413,525
Water network	-	214,387	214,387
	14,441,857	**23,932,547**	**38,374,404**

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 as issued by the Accounting Standards Board, as disclosed in note 2, certain property, plant and equipment with a carrying value of R 44,359,514 (2010: R 38,374,404) was recognised at provisional amounts. Carrying amounts of property, plant and equipment carried at provisional amounts are as follows:

Due to initial adoption of GRAP 17

Furniture and fixtures	531,142	165,392
IT equipment	189,167	189,167
Infrastructure	34,406,300	28,830,608
Community assets	561,325	561,325
Waterwater network	8,413,525	8,413,525
Water network	258,055	214,387

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17, are as follows:

Figures in Rand	2011	2010

4. Property, plant and equipment (continued)

The municipality will use the services of an accredted service provider which will assist in determining the valuation of Property, plant and equipment.

The date at which full compliance with GRAP 17 is expected, is 30 June 2012.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Other financial assets

Held to maturity		
Nedbank Limited - Investment account The investment matures monthly and bears interest at 8.6% per annum.	38,357	37,200
First National Bank Limited, Call Account (Municipal Infrastructure Grant) The account is available on demand and bears interest on a sliding scale. At year end the interest was 2.4%	75,686	1,084,765
First National Bank Limited, Call Account The account is available on demand and bears interest on a sliding scale. At year end the interest rate was 1.35%	7,419,993	10,966,108
Nedbank Limited - Savings Account The investement matures monthly and bears interest at 11,2% per annum	-	22,732
	7,534,036	**12,110,805**
Current assets		
Held to maturity	7,534,036	12,110,805

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of assets held to maturity financial assets in 2011 and 2010, as all the financial assets were disposed at their redemption date.

For debt securities classified as at fair value through surplus or deficit, the maximum exposure to credit risk at the reporting date is the carrying amount.

6. Inventories

Materials	1,540,414	2,024,939

Transitional provisions

Inventories recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 as issued by the Accounting Standard Board, as disclosed in note 2, certain inventories with a carrying value of R 1,540,414 (2010: R 2,024,939) were recognised at provisional amounts. Carrying amounts of inventories carried at provisional amounts are as follows:

Due to initial adoption of GRAP 12

Materials	1,540,414	2,024,939

Steps taken to establish the values of inventories recognised at provisional amounts due to the initial adoption of GRAP 12, is as follows:

The municipality will employ an accredited valuator to ensure that the valuation of inventories are in terms of GRAP 12.

The date at which full compliance with GRAP 12 is expected, is 30 June 2012.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
7. Trade and other receivables from exchange transactions		
Other receivables	398,586	731,856
8. VAT receivable		
VAT	-	6,747,911
9. Consumer debtors		
Gross balances		
Rates	57,952,382	49,317,826
Electricity	28,135,620	27,000,180
Water	56,052,628	57,917,309
Sewerage	39,167,149	34,346,299
Refuse	22,852,504	18,969,681
Other	95,507,267	82,104,734
	299,667,550	**269,656,029**
Less: Provision for bad debt and discounting		
Rates	(50,200,839)	(42,219,789)
Electricity	(15,790,443)	(18,882,755)
Water	(50,290,654)	(53,424,722)
Sewerage	(34,882,572)	(30,830,982)
Refuse	(20,341,194)	(16,929,859)
Other	(86,999,925)	(74,461,003)
	(258,505,627)	**(236,749,110)**
Net balance		
Rates	7,751,543	7,098,037
Electricity	12,345,177	8,117,425
Water	5,761,974	4,492,587
Sewerage	4,284,577	3,515,317
Refuse	2,511,310	2,039,822
Other	8,507,342	7,643,731
	41,161,923	**32,906,919**
Rates		
Current (0 -30 days)	2,618,810	2,753,558
31 - 60 days	1,879,299	2,103,435
61 - 90 days	1,715,830	1,934,898
91 - 120 days	1,639,527	306,146
Discounting effect	(101,923)	-
	7,751,543	**7,098,037**
Electricity		
Current (0 -30 days)	8,319,899	5,558,890
31 - 60 days	1,504,060	1,326,178
61 - 90 days	1,120,586	947,426
91 - 120 days	1,480,564	284,931
Discounting effect	(79,932)	-
	12,345,177	**8,117,425**
Water		
Current (0 -30 days)	2,421,119	1,765,342

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
9. Consumer debtors (continued)		
31 - 60 days	1,065,300	1,237,679
61 - 90 days	1,272,155	1,222,357
91 - 120 days	1,069,741	267,209
Discounting effect	(66,341)	-
	5,761,974	**4,492,587**
Sewerage		
Current (0 -30 days)	1,318,185	1,221,110
31 - 60 days	1,052,806	1,042,255
61 - 90 days	1,046,267	1,065,938
91 - 120 days	926,224	186,014
Discounting effect	(58,905)	-
	4,284,577	**3,515,317**
Refuse		
Current (0 -30 days)	749,656	739,636
31 - 60 days	628,615	622,225
61 - 90 days	592,199	568,772
91 - 120 days	575,822	109,189
Discounting effect	(34,982)	-
	2,511,310	**2,039,822**
Other		
Current (0 -30 days)	3,083,454	2,857,028
31 - 60 days	1,586,989	2,255,896
61 - 90 days	1,983,340	2,094,915
91 - 120 days	1,961,256	435,892
Discounting effect	(107,697)	-
	8,507,342	**7,643,731**
Reconciliation of allowance for bad debt		
Balance at beginning of the year	(236,749,110)	(191,497,886)
Contributions to provision	(21,756,517)	(45,251,224)
	(258,505,627)	**(236,749,110)**

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2011, R 33,958,565 (2010: R 31,317,539) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	18,511,123	14,895,564
2 months past due	7,717,067	8,587,668
3 months past due	7,730,375	7,834,307

Consumer debtors impaired

As of 30 June 2011, consumer debtors of R 258,505,627 (2010: R 239,636,326) were impaired and provided for.

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	8,100	6,000

Figures in Rand	2011	2010
10. Cash and cash equivalents (continued)		
Bank balances	1,419,125	3,564,893
	1,427,225	**3,570,893**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
First National Bank - Current account	1,922,383	715,855	3,153,443	1,419,125	(11,208,401)	4,466,136

11. Other financial liabilities		
Held at amortised cost		
Development Bank of South Africa The loan is unsecured, bears interest at a fixed rate of 15.82% per annum and is repayable in half yearly instalments.	266,336	191,172
Development Bank of South Africa The loan is unsecured, bears interest at a fixed rate of 15.53% per annum and is repayable in half yearly instalments.	1,182,779	102,495
Development Bank of South Africa The loan is unsecured, bears interest at a fixed rate of 16.11% per annum and is repayable in half yearly instalments.	(21,124)	210,754
Development Bank of South Africa The loan is unsecured, bears interest at a rate linked to the prime lending rate and is repayable in half yearly instalments.	2,128,327	3,344,328
	3,556,318	**3,848,749**
Non-current liabilities		
At amortised cost	2,039,406	3,600,938
Current liabilities		
At amortised cost	1,516,912	247,811
	3,556,318	**3,848,749**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

12. Finance lease obligation

Minimum lease payments due		
- within one year	247,565	247,565
- in second to fifth year inclusive	247,565	495,131
	495,130	742,696
less: future finance charges	(66,297)	(133,638)
Present value of minimum lease payments	**428,833**	**609,058**
Present value of minimum lease payments due		
- within one year	199,307	173,068
- in second to fifth year inclusive	229,526	435,990
	428,833	**609,058**
Non-current liabilities	236,682	435,990
Current liabilities	199,307	173,068
	435,989	**609,058**

It is the municipality's policy to lease certain motor vehicles under finance leases.

The average lease term is 5 years and the average effective borrowing rate was 14% (2010: 14%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	434,989	609,058

Figures in Rand	2011	2010

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Financial management grant (FMG)	1,750,893	901,157
Municipal infrastructure grant (MIG)	22,163,049	11,263,202
Municipal systems improvement grant (MSIG)	772,025	1,233,519
Neighbourhood development partnership grant	5,068,099	3,684,303
	29,754,066	**17,082,181**

Movement during the year

Balance at the beginning of the year	17,082,181	11,759,277
Additions during the year	30,258,000	16,432,504
Income recognised during the year	(17,586,115)	(11,109,600)
	29,754,066	**17,082,181**

See note 21 for reconciliation of grants from National/Provincial Government.

14. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Provision for long service	627,784	1,648,129	(447,606)	1,828,307
Provision for bonusses	1,385,594	4,003,041	-	5,388,635
Provision for workman compensation	526,881	469,467	(579,412)	416,936
Provision for leave	5,495,664	1,869,756	(3,448,435)	3,916,985
	8,035,923	**7,990,393**	**(4,475,453)**	**11,550,863**

Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilised during the year	Total
Provision for long service	545,184	422,282	(339,682)	627,784
Provision for bonusses	1,310,955	1,385,594	(1,310,955)	1,385,594
Provision for workmans compensation	595,719	525,788	(594,626)	526,881
Provision for leave	3,586,295	4,024,845	(2,115,476)	5,495,664
	6,038,153	**6,358,509**	**(4,360,739)**	**8,035,923**

15. Trade and other payables from exchange transactions

Trade payables	9,510,976	7,472,491
Payments received in advanced - contract in process	-	5,862,913
Retention creditors	48,325	-
Sundry debtors	175,107	-
Creditor arruals	28,495,641	28,218,880
Long service award accrual	-	254,977
Sundry building deposits	100,019	43,021
Revenue Standerton	5,763,368	-
	44,093,436	**41,852,282**

16. VAT payable

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
16. VAT payable (continued)		
VAT payable	19,015,892	-
17. Consumer deposits		
Rates	2,542,033	3,271,942
18. Revenue		
Fines	361,377	629,883
Government grants & subsidies	80,457,807	98,729,444
Licences and permits	3,799,848	4,873,084
Property rates	36,365,790	32,000,427
Rental of facilities & equipment	2,381,728	3,488,625
Service charges	169,899,161	151,516,220
	293,265,711	**291,237,683**
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	169,899,161	151,516,220
Rental of facilities & equipment	2,381,728	3,488,625
Licences and permits	3,799,848	4,873,084
	176,080,737	**159,877,929**
The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	36,365,790	32,000,427
Fines	361,377	629,883
Government grants & subsidies	80,457,807	98,729,444
	117,184,974	**131,359,754**
19. Property rates		
Rates received		
Rates - residencial	29,092,632	24,809,040
Rates - Commercial	4,363,895	3,808,799
Rates - state	2,909,263	2,229,931
Assessment rates	-	1,152,657
	36,365,790	**32,000,427**
20. Service charges		
Sale of electricity	121,628,774	99,894,492
Sale of water	21,146,195	25,150,460
Sewerage and sanitation charges	18,041,154	16,755,678
Refuse removal	9,083,038	9,715,590
	169,899,161	**151,516,220**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

21. Government grants and subsidies

Equitable share	62,871,692	49,169,110
Financial management grant	150,264	214,360
Integrated national electrification programme	(1,383,796)	315,885
Municipal infrastructure grant	8,930,153	35,666,193
Municipal systems improvement grant	1,211,494	57,912
Neighbourhood development programme grant	8,678,000	13,305,984
	80,457,807	**98,729,444**

Financial management grant (FMG)

Balance unspent at beginning of year	901,157	365,518
Current year receipts	1,000,000	750,000
Conditions met - transferred to revenue	(150,264)	(214,361)
	1,750,893	**901,157**

Conditions still to be met - remain liabilities (see note 13)

Conditions for Financial grant :

- Appointment of an appropriately skilled municipal manager.

- Appointment of at least two interns for purposes of building future financial managemnt capacity.

- Council resolution committing council to reforms.

- Submission of primary bank accounts.

- Development of an action plan for implementation.

- Monthly reporting on performance.

National electrification programme grant (INEP)

Balance unspent at beginning of year	-	310,000
Conditions met - transferred to revenue	-	(310,000)
	-	-

Conditions still to be met - remain liabilities (see note 13)

Conditions for the National programme grant :
- Account for the allocated funds on a monthly basis by the 10th of every month.

- Pass all benefits to end-customers.

- Not utilise the fund for any purpose other than electrification.

- Ring-fence funds transferred. Adhere to the approved electrification programme and agreed cash flow budget.

- Ring-fence electricity function.

- Adhere to the labour intensive construction methods in terms of the Expanded Public Works Programme (EPWP) guidlines.

Register the master plans for bulk infrastructure in terms of the INEP framework and to abide by the directives of the Department regarding the central planning and co-ordination for such bulk infrastructure. This is to maximize the economies of scale in the creation of bulk infrastructure affecting more than one municipality.

Use INEP funds for the refurbishment of critical infrastructure, only upon submission of a project plan which must be approved

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

21. Government grants and subsidies (continued)
under the framework to be regulated by the department.

Municipal Infrastructure grant (MIG)

Balance unspent at beginning of year	11,263,202	11,309,731
Current-year receipts	19,830,000	35,619,664
Conditions met - transferred to revenue	(8,930,153)	(35,666,193)
	22,163,049	**11,263,202**

Conditions still to be met - remain liabilities (see note 13)

Financial, capacity and reporting conditions for municipality infrastructure grants:

- Submit its financial statement to the Auditor-General on time.

- Demonstrate that it has the capasity to manage the infrastructure investment program.

- Prepare and submit all monthly reports on how it has used the grant in a prescribed format by a specified time.

- Allocate MIG funds in the municipal budget.

- Prepare a project business plan for each period.

- Register projects on the national MIG database.

Municipal systems improvement grant (MSIG)

Balance unspent at beginning of year	1,233,519	556,431
Current-year receipts	750,000	735,000
Conditions met - transferred to revenue	(1,211,494)	(57,912)
	772,025	**1,233,519**

Conditions still to be met - remain liabilities (see note 13)

- Submission of signed activity plan in a prescribed format with detailed budget and time frames on the implementation of prioritised measurable outputs.

- Submission of monthly expenditure reports by the 10th of every month and in accordancewith the Division of Revenue Act.

Government grants and subsidies

Balance unspent at beginning of year	3,684,303	2,546,144
Current-year receipts	8,678,000	14,444,143
Conditions met - transferred to revenue	(7,294,204)	(13,305,984)
	5,068,099	**3,684,303**

Conditions still to be met - remain liabilities (see note 13)

22. Other revenue

Donations	949,307	2,220,472
Other income	2,320,921	1,082,236
Tender deposits	91,300	60,100
	3,361,528	**3,362,808**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

23. Other income

Building plan charges	14,537	11,780
Camping fees	200	1,360
Cemeteries fees	235,785	221,801
Certificates	12,196	9,426
Clearance certificate	1,362	1,108
Commissions	38,594	34,378
Contributions received	(14,463)	(1,462)
Councillors cell phone repayments	999,037	27,646
Discount received	15,574	30,121
Dog licenses	60,472	15,860
Drainage charges	12,608	7,983
Entry fees	-	800
Escort fees	1,158	53,439
Membership fees	3,834	7,025
New connections	353,208	584,561
Non refundable tender	17,500	16,100
Other income	70,427	26,434
Printing and photo copies	15,016	6,693
Private calls	7,380	17,432
Reconnection fees	127	-
Recreational programs	(1,200)	1,754
Sale of erven	470,059	-
Sales of refuse bin	5,887	3,973
Surplus	1,623	4,024
	2,320,921	**1,082,236**

24. General expenses

Advertising	1,508,672	1,544,092
Auditors remuneration	1,734,128	1,786,594
Bank charges	362,294	259,374
Commission paid	781,864	541,592
Consulting and professional fees	2,135,651	2,333,830
Consulting fees	-	108,958
Consumables	3,248,938	2,428,159
Donations	10,411	33,864
Entertainment	164,297	104,457
Fleet	8,370,262	5,623,532
Fruitless exenditure	67,577	711,085
Grant expenses	12,064,801	999,130
Hire	20,100	35,481
IT expenses	351,852	259,438
Insurance	1,649,629	1,331,950
Medical expenses	1,000	1,354
Meter reading services	2,347,268	2,386,551
Other expenses	34,912,049	7,192,885
Pauper burials	-	11,525
Pest control	-	10,063
Protective clothing	443,093	257,287
Security (Guarding of municipal property)	5,108,106	4,866,332
Subscriptions and membership fees	535,159	494,138
Telephone and fax	2,690,052	1,903,084
Training	1,182,154	478,108
Travel - local	905,106	425,869
Valuation roll	665,011	1,666,213
	81,259,474	**37,794,945**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

25. Employee related costs

Basic	61,270,783	48,015,678
Medical aid - company contributions	4,444,921	3,856,316
UIF	571,863	480,245
WCA	-	525,788
Skills development levy	666,491	536,106
Buy of leave	356,617	529,043
Post-employment benefits - Pension - Defined contribution plan	10,839,311	8,968,420
Travel, motor car, accommodation, subsistence and other allowances	2,414,415	2,791,469
Overtime payments	10,452,652	6,543,715
Long-service awards	447,604	362,628
Acting allowances	1,356,426	1,094,548
Housing benefits and allowances	299,917	456,933
Stand-by allowance	1,430,056	1,147,574
	94,551,056	**75,308,463**

Remuneration of municipal manager

The position of municipal manager was vacant for 2010 and 2011.

Remuneration of chief finance officer

Annual remuneration	324,411	-
Car allowance	93,333	-
Contributions to UIF, medical and pension funds	91,598	-
	509,342	-

Corporate and human resources (corporate services)

Annual remuneration	494,058	468,894
Car allowance	159,067	150,489
Other allowance	8,412	7,958
Contributions to UIF, medical and pension funds	23,184	10,279
Other	-	5,419
	684,721	**643,039**

Health, safety and social services (emergency management services)

Annual remuneration	314,052	300,452
Car allowance	250,754	273,231
Other allowance	15,907	22,428
Contributions to UIF, medical and pension Funds	102,736	37,255
	683,449	**633,366**

Technical services

Annual remuneration	394,393	319,172
Car allowance	238,600	203,400
Other allowance	15,907	13,560
Contributions to UIF, medical and pension funds	34,550	34,134
	683,450	**570,266**

Acting chief financial officer

Annual remuneration	251,222	-

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
25. Employee related costs (continued)		
Car Allowance	72,990	-
Acting allowance	62,927	-
Contributions to UIF, Medical and Pension Funds	28,997	-
	416,136	-
26. Remuneration of councillors		
Councillors	6,450,457	6,043,743
Contibution UIF	-	994
Skills development levy	42,461	37,115
	6,492,918	**6,081,852**
27. Allowance for bad debt		
Bad debt written off	122,079	74,412
Contribution for bad debt	21,756,517	45,251,225
	21,878,596	**45,325,637**
28. Investment revenue		
Interest revenue		
Bank	766,912	465,683
29. Depreciation and amortisation		

As 2010 was the first year the municipality applied GRAP 17, the municipality elected to apply the transitional provision as set out in Directive 4. Therefore no depreciation was calculated hence the useful life and residual value of assets were not present nor identified at year end. A Service expert will be appointed to ensure that the municipality complies with the 3 year measurement period for GRAP 17.

30. Finance costs		
Non-current borrowings	(10)	-
Trade and other payables	-	280
Interest paid	1,141,013	754,315
	1,141,003	**754,595**
31. Auditors' remuneration		
Fees	1,734,128	1,786,594
32. Grants and subsidies paid		
Other subsidies		
Electricity - indigent grants	396,140	321,306
Water - indigent grants	4,303,448	4,049,005
	4,699,588	**4,370,311**
33. Bulk purchases		
Electricity	123,663,638	92,019,023
Water	1,999,552	253,463
	125,663,190	**92,272,486**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
34. Cash (used in) generated from operations		
(Deficit) surplus	(39,661,315)	42,103,442
Adjustments for:		
Allowance for bad debt	21,878,596	48,138,441
Movements in provisions	3,514,940	1,997,770
Other non-cash items	3,366,821	-
Changes in working capital:		
Inventories	484,525	(38,847)
Trade and other receivables from exchange transactions	333,270	2,396,329
Consumer debtors	(30,133,600)	(62,813,152)
Trade and other payables from exchange transactions	2,241,154	19,791,766
VAT	25,763,803	(1,803,273)
Unspent conditional grants and receipts	12,671,885	1,994,357
Consumer deposits	(729,909)	889,211
	(269,830)	**52,656,044**
35. Commitments		
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	399,321	400,822
- in second to fifth year inclusive	385,237	751,574
	784,558	**1,152,396**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

Figures in Rand	2011	2010

36. Contingencies

In 2008/2009 Deloitte was requested by the GSDM to render professional financial services to Lekwa Local Municipality. Services were rendered but GSDM refused to pay the amount invoiced. Lekwa Local Municipality also denies any contractual liability. The lawsuit is currently R2,400,000. The likelihood for Lekwa Local Municipality to succeed is estimated to be 50%.

Lekwa Local Municipality terminated its contract with Silinda Mokoena due to poor performance and lack of professional capacity. Silinda Mokoena issued summons and received a default judgement. Lekwa Local Municipality applied for a rescission thereof. The lawsuit is R11,000,000. The likelihood for Lekwa Local Municipality to succeed is estimated to be 50%.

KL Khuzwayo received an award against Lekwa Local Municipality form the CCMA. The lawsuit is R11,050.80. The possibility for Lekwa Local Municipality to succeed is estimated to be 0%.

Agavelle Bester claims damages for the death of her spouse killed by a hanging electrical cable. Lekwa Local Municipality denies any laibility and has defented the action. The lawasuit is currently R3,900,000. The likelihood for Lekwa Local Municipality to succeed is estimated to be 60%.

Telkom SA claims damages alleging some of its underground cables had been damaged by the employees of Lekwa Local Municipality. Lekwa Local Municipality denies any liability. The lawsuit is currently estimated at R39,814.66.

Runway Investments alleges that they had a contract with the Lekwa Local Municipality for contruction work. Lekwa Local Municipality has engaged another contractor due to the poor performance and incomplete work by Runway Investments. The lawsuit is R3,600,000. The possibility to succeed is estimated to be 50%.

Lekwa Local Municipality contracted Silinda Mokoena to do debt collection. However, Silinda Mokoena kept all the money collected. Silinda Mokoena alleged all the money collected was used to cover operational expenses. Silinda Mokoena admitted receiving and keeping the money collected on behalf of Lekwa Local Municipality. The lawsuit is currently R6,000,000.

Lektratek Water Technician alleged that they were contracted by Lekwa Local Municipality but were never paid the retention fees for worked done. Lekwa Local Municipality maintain that the plaintiff's work was poor and not completed. The lawsuit is currently R556,267.11.

Lekwa Local Municipality has not yet settled its account with the Department of Water Affairs and Forestry. The municipality have an agreement to receive purified water, however the municipality is currently receiving raw water and DWAF is billing for purified water. The dispute has not been settled. The current outstanding amount due to DWAF is R48,601,767.24.

Lekwa Local Municipality has been sued for R18,000,000. by various farmers.The farmers alleged that Lekwa Local Municipality failed or neglected to perform regular maintenance on its electrical cables and as a result of the negligence a fire broke out and spread over the land of the plaintiffs. This case is still being defended in court.

37. Related parties

Relationships

Councillors with vested interest in companies rendering services to the municipality.	Abomdeni Trading Enterprise (Proprietary) Limited - BS Zwane Standerton Printing Works (Proprietary) Limited - PT Schnetler

Related party transactions

Purchases from (sales to) related parties		
Abomdeni Trading Enterprise (Proprietary) Limited	-	64,934
Standerton Printing Works (Proprietary) Limited	24,976	3,252

38. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Figures in Rand	2011	2010

38. Risk management (continued)

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 11, 12, cash and cash equivalents disclosed in note 10, and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

Financial assets exposed to credit risk at year end were as follows:

Financial Instrument	**2011**	**2010**
Instrument	7,495,679	11,074,573
Instrument	38,357	59,932

39. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

40. Unauthorised expenditure

Materials and bulk purchases	-	2,153,326

41. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	67,577	2,183,302

Fruitless and wasteful expenditure that was incurred was due to the following :

Figures in Rand	2011	2010

41. Fruitless and wasteful expenditure (continued)

2011 - Overpayment of salaries.

2010 - Interest paid on overdue Eskom accounts.

- Late payment of VAT and PAYE to SARS.

42. Leases (Effects of transitional provisions)

In accordance with its transitional provision as per Directive 4 as issued by the Accounting Standards Board, the municipality need not comply with the standard on Leases, until such time as the measurement period in the transitional provision for any of the following Standards of GRAP have expire:

- Construction contracts
- Inventories
- Investment property
- Property, plant and equipments
- Provisions, contingent liabilities and contingent assets
- Agriculture
- Intangible assets

43. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	-	57,870
Amount paid - current year	-	(57,870)
	-	-

PAYE and UIF

Current year subscription / fee	9,335,844	5,399,909
Amount paid - current year	(9,335,844)	(5,399,909)
	-	-

Pension and medical aid deductions

Current year subscription / fee	16,616,830	14,624,012
Amount paid - current year	(16,616,830)	(14,624,012)
	-	-

VAT

VAT receivable	-	6,747,911
VAT payable	19,015,892	-
	19,015,892	**6,747,911**

VAT output payables and VAT input receivables are shown in note 8 and 16.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2011:

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

43. Additional disclosure in terms of Municipal Finance Management Act (continued)

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Makhanye M	513	4,264	4,777
Mashinini V	1,013	-	1,013
Mnisi M	1,651	43,777	45,428
Ngwenya A	-	115	115
Radebe M	677	5,026	5,703
Schnetler P	2,953	671	3,624
Tshabalala N	693	7,095	7,788
Tshabalala M	692	5,151	5,843
Van der Wath J	1,031	-	1,031
	9,223	**66,099**	**75,322**

30 June 2010		Outstanding for the period	Total R
Brits AJ	-	650	650
Diedericks EV	-	809	809
Maboea SA	-	(2,655)	(2,655)
Maseko HJ	-	(1,094)	(1,094)
Mashinini VJ	-	1,507	1,507
Mavuso NQ	-	16,574	16,574
Mayet D	-	824	824
Molaba ML	-	1,264	1,264
Mothopeng JB	-	523	523
Mthembu N	-	18,030	18,030
Ndlovu AT	-	4,323	4,323
Ndlovu TC	-	466	466
Nhlapo D	-	12,631	12,631
Radebe MS	-	6,242	6,242
Radebe-Khumalo JQ	-	1,482	1,482
Rakitla MD	-	281	281
Sarang F	-	469	469
Sitshoni NZE	-	(1,002)	(1,002)
Van der Merwe H	-	794	794
van der Merwe H	-	(664)	(664)
	-	**61,454**	**61,454**

44. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	3,556,318	3,848,749

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

The supplementary information presented does not form part of the annual financial statements and is unaudited

Lekwa Local Municipality
Appendix A

Schedule of external loans as at 30 June 2011

	Loan Number	Redeemable	Balance at 30 June 2010	Received during the period	Redeemed written off during the period	Balance at 30 June 2011	Carrying Value of Property, Plant & Equip	Other Costs in accordance with the MFMA
			Rand	Rand	Rand	Rand	Rand	Rand
Loan Stock			-	-	-	-	-	-
Structured loans			-	-	-	-	-	-
Funding facility			-	-	-	-	-	-
Development Bank of South Africa								
DBSA @ 16.11%	12369/101	31/12/2012	151,704	-	53,782	97,922	-	-
DBSA @ 15.53%	12837/101	31/12/2009	-	-	-	-	-	-
DBSA @ 15.82%	13738/102	31/09/2011	413,998	-	255,310	158,688	-	-
DBSA @ Prime	100198/1	31/03/2014	4,424,611	-	1,080,284	3,344,327	-	-
			-	-	-	-	-	-
			4,990,313	**-**	**1,389,376**	**3,600,937**	**-**	**-**
Bonds			-	-	-	-	-	-
Other loans			-	-	-	-	-	-
Lease liability			-	-	-	-	-	-
Annuity loans			-	-	-	-	-	-
Government loans			-	-	-	-	-	-
Total external loans								
Loan Stock			-	-	-	-	-	-
Structured loans			-	-	-	-	-	-
Funding facility			-	-	-	-	-	-
Development Bank of South Africa			4,990,313	-	1,389,376	3,600,937	-	-
Bonds			-	-	-	-	-	-
Other loans			-	-	-	-	-	-
Lease liability			-	-	-	-	-	-

Lekwa Local Municipality
Appendix A

Schedule of external loans as at 30 June 2011

	Loan Number	Redeemable	Balance at 30 June 2010	Received during the period	Redeemed written off during the period	Balance at 30 June 2011	Carrying Value of Property, Plant & Equip	Other Costs in accordance with the MFMA
			Rand	Rand	Rand	Rand	Rand	Rand
Annuity loans			-	-	-	-	-	-
Government loans			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			4,990,313	-	1,389,376	3,600,937	-	-

Supplementary Information

Appendix B: Analysis of property, plant and equipment

The supplementary information presented does not form part of the annual financial statements and is unaudited

Lekwa Local Municipality
Lekwa Local Municipality
Appendix B

Analysis of property, plant and equipment as at 30 June 2011

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	37,455,267	5,619,360	-	-	-	-	43,074,627	-	-	-	-	-	-	43,074,627
Community Assets	561,325	-	-	-	-	-	561,325	-	-	-	-	-	-	561,325

Lekwa Local Municipality
Appendix B

Analysis of property, plant and equipment as at 30 June 2011

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	357,812	365,750	-	-	-	-	723,562	-	-	-	-	-	-	723,562
Total property plant and equipment	38,374,404	5,985,110	-	-	-	-	44,359,514	-	-	-	-	-	-	44,359,514
Agricultural/Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment properties	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	38,374,404	5,985,110	-	-	-	-	44,359,514	-	-	-	-	-	-	44,359,514

Supplementary Information

Appendix D: Segmental Statement of Financial Performance

The supplementary information presented does not form part of the annual financial statements and is unaudited

LEKWA LOCAL MUNICIPALITY
APPENDIX D

SEGMENTALL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2011

Actual Income 2010 R	Actual Expenditure 2010 R	Surplus/ (Deficit) 2010 R		Actual Income 2011 R	Actual Expenditure 2011 R	Surplus/ (Deficit) 2011 R
10,000	14,786,931	(14,776,931)	Executive & Council	6,894	16,746,167	(16,739,273)
157,765,436	32,875,307	124,890,129	Finance & Administration	138,050,079	90,031,182	48,018,897
28,499	7,271,206	(7,242,707)	Planning & Development	9,871	767,931	(758,059)
-	-	-	Health	-		-
15,303,560	31,807,500	(16,503,940)	Community & Social Services	13,446,030	48,737,650	(35,291,620)
258,810	80,955	177,855	Housing	241,811	89,424	152,388
-	5,057,278	(5,057,278)	Public Safety			-
-	-	-	Sport & Recreation	263	2,147,368	(2,147,105)
-	-	-	Environmental Protection	-		-
16,970,718	6,566,727	10,403,991	Waste Management	18,041,154	8,879,119	9,162,035
-	7,074,866	(7,074,866)	Road Transport		4,677,828	(4,677,828)
25,151,074	61,937,912	(36,786,838)	Water	21,149,659	36,722,952	(15,573,293)
100,296,067	106,113,078	(5,817,011)	Electricity	122,046,366	143,853,822	(21,807,457)
		-	Sewerage	-	-	-

		-	Other			
315,784,164	**273,571,760**	**42,212,404**	**Sub-total**	**312,992,127**	**352,653,442**	**(39,661,315)**
-	-	-	Less Inter-Departmental Charges	-	-	-
315,784,164	**273,571,760**	**42,212,404**	**Total**	**312,992,127**	**352,653,442**	**(39,661,315)**

Supplementary Information

Appendix E(1): Actual versus Budget (Revenue and Expenditure)

The supplementary information presented does not form part of the annual financial statements and is unaudited

LEKWA LOCAL MUNICIPALITY
APPENDIX E

ACTUAL VERSUS BUDGET (REVENUE & EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2011

	2010				2011					
Revenue	**Actual 2010 R**	**Budget 2010 R**	**Variance 2010 R**	**Variance 2010 %**	**Revenue**	**Actual 2011 R**	**Budget 2011 R**	**Variance 2011 R**	**Variance 2011 %**	**Explanation of significant variances of 10% and grater versus budget**
Property rates	34,887,644	28,109,400	6,778,244	24.1	Property rates	36,365,790.00	37,673,602.00	(1,307,812.00)	(3.47)	
Collection charges	-	-	-	-	Collection charges	-	-	-		
Service charges	151,516,220	155,641,248	(4,125,028)	-2.7	Service charges	169,899,162.00	204,688,207.00	34,789,045.00	17.00	
Rental : Property & equipment	3,488,626	3,658,025	(169,399)	-4.6	Rental : Property & equipment	2,381,728.00	3,516,090.00	1,134,362.00	32.26	
Interest earned - external investments	465,683	525,000	(59,317)	-11.3	Interest earned - external investments	766,912.00	524,900.00	(242,012.00)	(46.11)	
Interest earned - outstanding receivables	16,896,680	16,386,864	509,816	3.1	Interest earned - outstanding receivables	15,597,976.25	18,318,860.00	2,720,883.75	14.85	
Fines	629,884	1,522,628	(892,744)	-58.6	Fines	361,376.00	1,623,810.00	1,262,434.00	77.75	
Licenses & Permits	4,873,084	3,625,890	1,247,194	34.4	Licenses & Permits	3,799,848.00	4,030,483.00	230,635.00	5.72	
Tender deposits received	60,100	-	60,100	-	Tender deposits received	91,300.00	-	(91,300.00)	-	
Government grants and subsidies	99,663,535	50,391,618	49,271,917	97.8	Government grants and subsidies	80,457,807.00	64,622,000.00	(15,835,807.00)	(24.51)	
Other income	1,082,234	395,545	686,689	173.6	Other income	2,320,921.00	1,448,950.00	(871,971.00)	(60.18)	
Other grants and donations received	2,220,472	51,793	2,168,679	4187.2	Other grants and donations received	949,307.00	-	(949,307.00)	-	
Total Revenue	**315,784,162**	**260,308,011**	**55,476,151**	**4,443.00**	**Total Revenue**	**312,992,127.25**	**336,446,902.00**	**20,839,150.75**	**13.32**	
Expenditure					**Expenditure**					
Personnel	(81,390,314)	(81,915,278)	524,964	(0.6)	Personnel	(104,021,071)	(101,079,431.00)	2,941,639.97	(2.91)	
Finance costs	(936,833)	(281)	(936,552)	333,292.5	Finance costs	(1,141,003)	-	1,141,003.00	-	
Debt impairment	(48,138,441)	(29,119,897)	(19,018,544)	65.3	Debt impairment	(21,878,596)	(12,214,687.00)	9,663,909.00	(79.12)	
Repairs and maintenance - general	(5,068,380)	(8,729,076)	2,660,696	(30.5)	Repairs and maintenance - general	(13,990,515)	(16,036,385.00)	(2,045,869.88)	12.76	
Bulk purchases	(92,272,486)	(90,119,160)	(2,153,326)	2.4	Bulk purchases	(125,663,638)	(142,386,366.00)	(16,722,728.00)	11.74	
Grants and subsidies paid	(4,370,311)	(7,168,546)	2,798,235	(39.0)	Grants and subsidies paid	(4,699,588)	(5,727,960.00)	(1,028,372.00)	17.95	
General expenses	(40,503,953)	(106,567,729)	66,063,776	(62.0)	General expenses	(81,259,474)	(135,572,327.80)	(54,312,853.80)	40.06	
Total Expenditure	**(273,680,718)**	**(323,619,967)**	**49,939,249**	**333,228.1**	**Total Expenditure**	**(352,653,885)**	**(413,017,156.80)**	**(60,363,271.71)**	**0.49**	
NET SURPLUS/ (DEFICIT)	**42,103,444.00**	**(63,311,956.00)**	**105,415,400.00**	**(166.5)**	**NET SURPLUS/ (DEFICIT)**	**(39,661,757.64)**	**(76,570,254.80)**	**(39,524,120.96)**		